HealthAffairs Blog

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Should We Be Able To Buy Insurance Across State Lines?

Written by John Goodman

I live in Texas. Right now, the only health insurance I can buy is insurance regulated under Texas law. But if bills before Congress (most notably, one sponsored by Arizona Republican Congressman John Shadegg), are enacted, I would be able to buy insurance regulated, say, by the laws of Virginia, or the laws of Delaware, or 47 other states.

Proponents claim this would greatly increase competition. Opponents claim it would undermine "consumer protections." I think both claims are mainly wrong. I would not expect the number of insurance companies trying to sell me insurance in Dallas, Texas to change at all. And if I am worried about consumer protections, I can continue to buy Texas-regulated insurance, just as I did before.

In fact, far from losing consumer protections, I would gain access to all sorts of protections I do not now have. Specifically, I would be able to choose among 50 different regulatory regimes. And because market prices (premiums) would reflect the different regulatory costs, I could weigh cost against benefits in selecting the regulatory regime that best fits my needs.

What Matters To Consumers?

Let's run through a few things that a rational consumer should care about. One is guaranteed renewability and how well that is enforced. I don't want an insurer to be able to cancel my policy or jack up my premium just because I get sick.

Dispute resolution is another issue. If I don't agree with a coverage decision my insurer makes, what procedures are in place to make sure I get a fair hearing and an objective resolution? How difficult is this to do? How long does it take?

Every state has mandated health insurance benefits. These are laws requiring insurers to cover services ranging from acupuncture to in vitro fertilization and providers ranging from chiropractors to naturopaths — and there are considerable differences among the states. Although often described as "consumer protections" in every legislative hearing I have ever attended, it is the special-interest providers (rather than patients) who are pushing for these laws.

Still, I might be concerned about a change in my plan benefits in future years. So if I want to make sure I am always covered by chiropractic services, maybe I will want a regulatory regime that requires it.

Then there are a set of technical issues that are hard for a normal consumer to understand, but that can be summarized and explained by Consumer Reports or some other independent body. If the state regulates premiums, insurance forms, or loss ratios (percent of premium spent on benefits), after-the-fact audits are better than pre-approvals — by which regulatory inertia can keep markets from quickly meeting consumer needs. Also, insurance company audits should be paid for by the regulator (not the insurer), so that regulators are not tempted to needlessly impose costs.

Promoting Competition Among Regulators

Competition among 50 regulatory regimes would have beneficial effects both on regulators and insurers. Regulatory regimes that impose high costs and create few benefits would soon see everyone avoiding them. In time, they would have to change or discover they have no insurance left to regulate. And once customers start focusing on the non-price aspects of insurance, insurers will have enhanced incentives to compete on those features.

Remember the phrase, "You're in good hands with Allstate"? The advertisement asks consumers to think about how they are treated at the time claims need to be paid. I don't recall ever seeing a health insurance company boast about its claims-paying prowess. But that would become normal if health insurance were sold in a national marketplace.

Which brings us back to the claim of the proponents. I would not expect to see more competitors. I would expect to see more competition, however, in those aspects of insurance that are today handled almost exclusively by regulators.

Eliminating "Private Sector Socialism"

One thing that would not survive 50 state regulatory regime competition is guaranteed-issue and community rating in the individual market. In the six states that impose such requirements the vast majority of people who are relatively healthy are overcharged so that the small percent who are sick can be undercharged. This form of private sector socialism would quickly dissolve, as the healthy sought cheaper insurance under other regulatory regimes.

This would be a good outcome for healthy people because lower premiums would encourage the uninsured to buy insurance. But would people with pre-existing conditions (who remain in shrinking pools with rising per capita costs) be unfairly burdened? The solution that would face the least political resistance would be to exempt these six states from the proposal, unless they opt in. But a better solution would be for states to find more rational ways of subsidizing the care of high-cost patients.

Overall, University of Minnesota economists Steve Parente and Roger Feldman estimate that cross-state purchasing of health insurance would induce 12 million more people to obtain health insurance. That number would double if tax subsidies for health insurance were equalized — thus insuring 80% of the number of uninsured people the Senate (ObamaCare) health bill aims to insure — without any net cost to the federal government.